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# MUNICIPAL OWNERSHIP OF PUBLIC UTILITIES.

BY GEORGE STEWART BROWN.

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PROGRESSIVE Democrats are for municipal ownership, primarily, because they believe in democracy. They believe (1) that competition in the public services is impracticable; (2) that municipal ownership will pay, either in cash savings to the taxpayer or in cheaper and better service; (3) that municipal ownership is a political necessity, and will remove the main and most threatening source of political corruption.

(1) *Competition in public-service industries is impracticable.*—There is a fundamental difference between a corner grocery, for instance, which can spring up anywhere, and an industry like a gas company, whose very existence depends on a grant from government, and whose first nourishment is the right to use the property of the community, the public streets.

In Baltimore, Maryland, the native city of the writer, there was for a time so-called competition in every public-service industry; the result was some temporary benefit, perhaps, in reduced rates or improved service; but in the end came consolidation, with a capitalization bearing interest on two franchises instead of one, and a not inequitable plea on the part of the combined company to the effect that "you, the people, have forced us to this condition of over-capitalization, and must help us bear the burden."

This has resulted in confusion worse confounded both to the corporations themselves and to the public mind, which has failed to grasp the real nature of the problem. So-called competition in public-service industries is not competition at all,—it is war. The stronger company either buys out the weaker at once without further parley, or it divides the territory with the weaker, if the territory is big enough to divide, and agrees on rates; or it

temporarily lowers the rates below the point of profit until the weaker succumbs. As a matter of fact, with the exception of the telephone service, industrial public-service war has had but one universal result, consolidation. Not a single instance to the contrary can be cited. The tendency to consolidation has become so strong that lighting companies furnishing different kinds of lights, like gas and electricity, are now combining, although they largely supply a different field and class of customers. No ingenuity of the most skilled lawyers can prevent consolidation. On the other hand, when a few consolidations here and there have been found illegal, a new method has always been invented to keep the separate interests together, or to reunite them in fact if not in name.

Granted that a public service must be a monopoly, the people will not long tolerate a monopoly in private hands. They will perhaps try regulation first; they will sooner or later insist that, if a monopoly, it must be a government monopoly, operated solely for the public benefit, instead of a private monopoly, operated primarily for the purpose of private gain, and only incidentally for the service of the people.

(2) *Municipal ownership will pay.*—One item is almost universally neglected in considering the financial success or failure of city ownership, and that is the capitalized value of the right to do the particular service through the use of the public property in the streets. Let us assume, for illustration, two companies in cities of the same size with their two tramway services, or electric-lighting services, costing the same sum for instalment and with the same rates and an equally efficient management—two business enterprises, that is to say, earning exactly the same amount of money, and identical in their conditions, except that one is public and the other private.

Let us suppose that the value of the actual material property of each, bought and constructed, is \$50,000,000, and that the private concern pays interest and dividends on a capitalization of \$100,000,000, the other \$50,000,000 being the intangible value created by the permit held by the private concern from government to use its combined material properties in connection with the public streets for the required public service.

Thus we have the interest on \$50,000,000 saved for our equally efficient city service. That is the saving to the city, or the margin

of efficiency, which our supposed public concern effects as compared with the equally well-managed private company. Now, in Baltimore, for instance, the attempted easement assessments, under a plan similar to the New York franchise-tax law, amounted to \$23,000,000, and they were moderate, because they did not attempt to reach all the intangible value, but only so much of it as came directly from the use of the city streets. Yet this is half the city debt; and, if the same ideal condition had existed in Baltimore as is supposed in our illustration, the effect of public management would have been like cutting the debt in two.

To return to our illustration. Fifty million dollars is paid by the first city to the private company for rendering a governmental function, whereas the other city saved that amount by performing that function itself; or, to state it in a different way, the public concern would have to be only half as efficient as the private company to produce the same result to the city.

It is absurd to attempt to settle finally the right or wrong of the policy of municipal ownership by reference to the results of any specific instance, just as it would be ridiculous to conclude that individual failures or successes in the banking business demonstrated the folly or wisdom of following that business as a calling. Yet Philadelphia, the stock example of the opponents of municipal ownership, is always so quoted, without regard to the question what Philadelphia gained in the increment of franchise value while it held on to its public service. Compare the advantages which Philadelphia gets out of its present lease of the gas-works with the condition of Baltimore with a company operating under a perpetual franchise. Now, Philadelphia's present advantage is due to the fact that, at the time of making the lease, it had a large accrued franchise value to dispose of, and who can say offhand that its long-continued policy of holding on and operating was worse, on the score of past extravagance and debauchery, or better, on the score of present advantages derived incidentally from that very policy?

The writer believes it is a recognition of the value of the capitalized franchise that makes us hold on to the one public service that is generally municipalized, namely, our water-supplies. Logically, our reactionaries should advocate the turning over of our water-supplies to private enterprise. Why not, if municipal ownership is so bad?

Whatever the reason, we seem to have finally reached the conclusion to hold tight to what we have. For, even in the most reactionary communities, any proposition to give up a municipal water system to private management would be immediately laughed out of court. The veriest tyro can see that now he pays for water the actual cost, namely, the low rates of interest on city capital expended for plant *plus* the actual running expenses of the department, and that any balance goes to a lowering of his tax rate, while, were it farmed out, he would at once begin to pay in addition interest upon the watered flotation of a private company capitalized on its franchise value. Even if he thinks the private company could hire men for lower wages, save money on its supplies and in many other ways, he knows that the new item would largely exceed any such savings; and he also instinctively feels that, as that franchise value grows with increase of population, the capitalization on which he must give a fair return will grow with equal pace.

To show still further that we are conscious of this same idea concerning the franchise value to be given away, it is worthy of note that, in considering the establishment of some new service, such as a subway for underground wires, or a sewerage system, we invariably favor municipal ownership, entirely without respect to making it pay as a business proposition.

In the fight to put the wires underground in Baltimore, it was clearly recognized that the way to do so was by a municipal subway. And here the idea of municipal profit on the transaction was eliminated, the plan being simply to charge enough rental to pay interest and sinking-fund, and thus give the use of the subways to the private companies for cost, simply and solely to get the streets clear of obstructions.

Not charging for the franchise value would probably be the result of the plan proposed as an alternative to municipal ownership and operation; that is, public ownership with private operation. This method would be much preferable to private ownership, because the franchise itself would be reserved, and some day might be utilized without extra cost by the city itself.

Again, in the matter of sewerage in Baltimore, only once was it seriously proposed to farm out the system to a private company. The proposition to grant a franchise was coupled with fair promises of the benevolence the company would show to the city—

how it would relieve the city from an enormous municipal debt and charge fair and reasonable rates; but immediately, with loud and universal public condemnation, the proposal was buried out of sight. Its opponents called it a scheme for "graft," a "gigantic steal," etc. Why graft? Why a steal? What was there to steal except the franchise value, which, of course, would have been abundantly capitalized? A distinct popular recognition of the point I am trying to make.

The margin of efficiency saved by the reservation of the franchise value, coupled with the lower interest rate on municipal, as compared with private, loans (with the promoters' and bankers' commissions on the latter), must be more than used up by higher wages, political debauchery and extravagance before public operation can become more expensive than private ownership.

Besides, there is no inherent reason why the mob of voters should not obtain as good and successful management as the mob of stockholders.

Again, the increment of franchise value to come from future increase of population is going to be enormous. We all believe in great increases in population in the future in and about our great cities. The franchise or right to serve a city of a million souls will be worth more than twice as much as the franchise to serve half a million. If we buy now from the private owners, including present franchise value, we will save all future increment, with every prospect that the proportionate improvement in the governmental service will be greater every year in the line of increased efficiency. The increase, up to the present time, in the value of public-service capitalizations, has been almost beyond the dreams of avarice. From the moment of municipalization, this will become the property of the people, and accrue to them as reduced rates, better service or lowered tax rates.

(3) *Municipal ownership is a political necessity.*—Public-utility corporations are the chief bulwark and support of the machine, and interest in the questions affecting vested privilege means for the individual showing such interest that he puts himself outside the party pale. Give the "boss" his franchises and the vested interests behind them, and you have the immense modern campaign fund which alone makes the machine possible.

What is the testimony of those who have had practical experience in this matter? Ask La Follette, ask Mark Fagan, ask

Tom Johnson, ask Folk, ask Weaver, and they will answer, with one accord, that their breach with their party organizations came when they attempted to remedy some abuse which the masters of vested privilege, the franchise-holders, were committing, or to punish the perpetrators thereof. They will testify that it was not the free choice of subordinates, or the suppression of petty and minor graft, that aligned the party "boss" against them. These were sins, but forgivable sins. The one unpardonable sin was to touch with a fearless hand the public-service monopoly question, or to punish those who assist the machine in carrying out its alliance with business privilege.

No one now, conservative or radical, stands for unregulated monopoly, while all thinkers and writers on the subject recognize public services as necessary and natural monopolies; and it is generally admitted that existing political evils are primarily caused by the presence in politics of the public-service corporations, and this admission involves the recognition of the necessity for some remedy. Certain opponents of municipal ownership propose "regulation" and "punishment for the wrong-doer." Now, in the first place, "regulation" means what looks very like a political impossibility. It means that the servant must regulate his master; that the party man, who has been elected as such, must put himself outside the breastworks of the organization by regulating the party's best and ever-faithful friend, the campaign contributor. This is not in human nature. This is why you will so often find the business man in office, honest as the day is long in his private business, but in office particularly careful to carry out his reforms in places where they do not conflict with big business privilege.

The advocates of regulation overlook one point, which, in my opinion, is vital. Regulation of rates or service is always resisted by the owners; and the advocate of regulation is compelled to put himself in constant antagonism with his business associates and social friends, who happen to be owners or managers of the particular service involved. To do this, to interfere with the business interests of those with whom one enjoys the most pleasant personal relations in one's daily walk, is a disagreeable and often dangerous thing for any man to do.

Yet the public official must needs do this, over a long and aggravating period of years, throughout his whole political exist-

ence, if he is to carry out a policy of regulation, or even attempt to compel the public-service corporations to obey their legal obligations. A battle for municipal ownership would be a comparatively short conflict, and there would be nothing to disturb personal relations, as soon as it became an accomplished fact.

This social and business association, combined with the fear of wrath to come in the shape of a contribution which will set their party machine against them, explains the failure of executive officers, otherwise honest and efficient, to take up, on their own initiative, cases of plain violation of public obligations on the part of these companies. This is what the organizations and the companies mean by a "safe" man. Every nomination for important office is scrutinized from their own point of view by the representatives of these vested interests. Fagan, La Follette, and Johnson are not considered "safe," because they have touched the vital pocket-nerve. To obtain their renominations, they have each been compelled to capture their party, over the heads of its old organization, and practically to construct a new party of their own, and fight the combined power of the public-service corporations, which immediately rallied around the banner of the opposing party. The fact that they have succeeded shows that the people have learned to protect their government, and indicates strongly that they will be responsive to the necessities which municipal ownership brings of a more certain tenure of office in the public service and a greater governmental efficiency.

In every case where "regulation" has seriously been attempted, long and tedious litigation has been the result. Witness Roosevelt's Ford Law which, though passed in 1899, has never yet been enforced. Witness La Follette's rate legislation and Johnson's efforts for three-cent fares. If the litigation is successful, it involves the election of successive administrations, who are firm believers in the same policy, to keep the "regulation" going; and this, in turn, means a continuous political warfare, fraught with all these necessary antagonisms and involving a steady incentive to political corruption, without the definite results municipal ownership would secure.

Municipal ownership is only beginning to be tried in this country, although a start is being made in the electric-lighting service, some 800 plants, large and small, having been established, according to Mr. McCarthy, the legislative statistician of Wisconsin.



But time enough has not rolled by to make history and show success or failure. Private ownership, on the other hand, has existed for a long time, and yet no important instance can be cited of successful "regulation" in any city. In the cities where it has been attempted, like Chicago, Cleveland, New York and Detroit, the sentiment for municipal ownership is strongest. It is not too much to say that, for political reasons, "regulation" either has not been attempted, or where attempted has failed.

If we are to measure efficiency by something more than dollars and cents, if elements like comfort and convenience and conscience and political freedom are to count for anything, we must by co-operation, through the medium of our city governments, furnish the people with those necessities which, from the nature of the situation, ordinary competitive business cannot furnish, and as to which they must either be protected by government or taxed to make a watered franchise pay.

These are real functions of government according to the true doctrine of "*laissez-faire*." The philosophers of that school did not hesitate to provide a police force to prevent private exploitation, to establish a tax-collecting department instead of farming out the taxing power. But we have handed over the public property in the streets to private corporations, and given them a power, monopolistic in its nature, to furnish public necessities; and within limits the owners have the power to charge or tax the people for this service.

We who believe in public ownership believe in radical reform as we believe in democracy. We want to make democracy free and able to handle the big propositions for popular benefit, as well as the small ones. We hold that, if we merely get good men in office who will look after and trample upon the small grafters, we accomplish something; but to give real justice to the people, we must stop the big leaks involving millions, as well as the small leaks involving hundreds and thousands. To fight the "boss" successfully, you must cut off his supplies, his campaign contributions. You must take away the special privilege of the man behind the "boss," the public-utility captain, and turn him from a natural enemy of government into an ordinary unprivileged citizen and the friend of progress.

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